

## Message Text

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ACTION NEA-10

INFO OCT-01 AF-06 EUR-12 IO-11 ISO-00 CEA-01 CIAE-00

COME-00 DODE-00 EB-07 FRB-03 H-02 INR-07 INT-05 L-03

LAB-04 NSAE-00 NSC-05 PA-01 AID-05 CIEP-01 SS-15

STR-04 ITC-01 TRSE-00 USIA-06 PRS-01 SP-02 FEA-00

OMB-01 OPIC-03 XMB-02 OES-03 /122 W

----- 032114

R 161210Z MAR 76

FM AMEMBASSY ALGIERS

TO SECSTATE WASHDC 4088

INFO AMEMBASSY MADRID

AMEMBASSY NOUAKCHOTT

AMEMBASSY PARIS

AMEMBASSY TRIPOLI

AMEMBASSY RABAT

AMEMBASSY TUNIS

AMCONSUL CASABLANCA

AMCONSUL TANGIER

USMISSION USUN NEW YORK

C O N F I D E N T I A L SECTION 01 OF 02 ALGIERS 0697

EO 11652: GDS

TAGS: PFOR, PBOR, AG, MO, MR, SP, SS

SUBJECT: THE U.S. INTEREST IN THE WESTERN MEDITERRANEAN - THE  
ALGIERS VIEWPOINT

REF: RABAT 1154

1. SUMMARY. THE FOLLOWING ARE OUR COMMENTS ON PARA 6  
OF RABAT'S 1154 REGARDING THE PRESENT STATE OF THE  
ALGERIAN ECONOMY AND ITS MEANING FOR U.S. INTERESTS  
IN THE AREA. IN BRIEF, WE BELIEVE ECONOMIC SITUATION  
CONSIDERABLY BETTER THAN REFTEL INDICATES. WE AGREE,  
HOWEVER, WE DO NOT NEED TO CODDLE BOUMEDIENE IN ORDER  
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TO PROTECT OUR ECONOMIC INTERESTS HERE. END SUMMARY.

2. WE WOULD BE THE LAST TO CLAIM THAT ALGERIAN ECONOMY IS ENJOYING ROBUST GOOD HEALTH. IT IS NOT. ALGERIANS ARE STRAINING HAD TO KEEP UP WITH AN OPTIMISTIC DEVELOPMENT PLAN. THIS HAS REQUIRED CONSIDERABLE BORROWING TO COVER A CURRENT ACCOUNT DEFICIT IN 1975 VARIOUSLY ESTIMATED AT BETWEEN \$800 MILLION TO OVER \$2 BILLION. IT HAS ALSO STRAINED AVAILABILITY OF FOREIGN EXCHANGE. THE PROBLEM, AT LEAST AT THE MOMENT, HOWEVER, IS ESSENTIALLY A SHORT-TERM CASH FLOW PROBLEM. ALGERIA'S REVENUE POTENTIAL IS STRONG--OIL SALES ARE EARNING THE COUNTRY \$4.5 BILLION A YEAR. BARRING MAJOR CASTASTROPHES, HYDROCARBON SALES--OIL, CONDENSATE AND LNG--ARE CERTAIN TO INCREASE. THE COUNTRY HAS A DEBT SERVICE RATION OF 15 PERCENT--CONSIDERED MANAGEABLE BY THE WORLD BANK, IMF, AND U.S. EXIMBANK. THAE COUNTRY IS CREDITWORTHY FOR SOUND PROJECTS, AND RECEIVES A STEADY STREAM OF U.S. BANKERS READY TO LOAN MONEY. IT IS A SERIOUS EXAGGERATION TO SAY ALGERIA IS PRACTICALLY BANKRUTP.

3. IN COMMON WITH MOST COUNTRIES ALGERIA HAS AN INFLATION PROBLEM, BUT IT IS COPING WITH IT FAIRLY WELL BY WORLD STANDARDS. PRICES OF SUBSIDIZED GOODS HAVE REMAINED CONSTANT FOR SEVERAL YEARS. PRICES OF OTHER GENERAL GOODS (EXCEPT MEAT, POULTRY AND VEGETABLES) ARE RISING AT A RATE OF ONLY 5-10 PERCENT PER YEAR. AS INDICATION OF TREND, EMBASSY'S OWN COST OF LIVING ALLOWANCE WAS CUT LAST YEAR BECAUSE PRICES IN WASHINTON WERE RISING FASTER THAN PRICES IN ALGIERS.

4. REFTEL REPORTS THAT OIL AND GAS SALES ARE DECREASING. AFTER SERIOUS INITIAL DIFFICULTIES, LNG PRODUCTION FACILITIES AT SKIKDA ARE NOW FUNCTIONING PROPERLY AND ALGERIAN LNG OUTPUT IS RUNNING AT ITS SUSTAINED HIGHEST RATE EVER. PETROLEUM PRODUCTION IS AN AREA OF UNCERTAINTY BUT ALGERIANS PREDICT MORE THAN 10 PERCENT GROWTH IN OUTPUT OF OIL IN 1976 COMPARED WITH 1975. WHILE THIS MAY BE OVERLY OPTIMISTIC, WE BELIEVE THAT 1976 PRODUCTION WILL EXCEED THAT OF 1975.

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5. WE AGREE THAT ALGERIA HAS MADE MANY UNWISE INVESTMENTS AND PURCHASES. AS FOR ARGUMENT THAT ALGERIA WOULD BE MAD TO INTERFERE (BY MOVING AGAINST U.S. COMMERCIAL INTERSTS) WITH IT ONE GREAT ASSET, I.E., ITS PARADOXICAL BUT DEMONSTRATED ABILITY TO AMASS LARGE SCALE FOREIGN CREDITS, ALGERIA'S ABILITY TO AMASS FOREIGN CREDITS IS NOT PARADOXICAL AT ALL. IT IS BASED ON (1) ALGERIA'S PROVEN ABILITY TO PRODUCE AND MARKET

ITS OIL, AND (2) EXPECTATIONS THAT ALGERIA WILL BE ABLE TO PRODUCE AND MARKET SIGNIFICANT QUANTITIES OF GAS. ALGERIA COULD, IF IT WISHED, DIVERT TRADE AWAY FROM THE U.S., AS IT IS NOW DIVERTING TRADE AWAY FROM FRANCE, WITHOUT ENDANGERING ITS ABILITY TO BORROW INTERNATIONALLY.

6. INCREASED MILITARY EXPENDITURES DO SEEM TO BE HAVING SOME IMPACT ON DEVELOPMENT, BUT WE DOUBT IF EVEN THE ALGERIANS CAN MEASURE THE QUANTITATIVE IMPACT. WE CERTAINLY CANNOT AND 17 PERCENT FIGURE ADVANCED BY REFTEL IS PURE GUESSWORK. FIGURE COULD BE HIGHER, ALTHOUGH WE SUSPECT IT SIGNIFICANTLY LOWER. IN ANY EVENT, SLOWDOWN IN FEVERISH PACE OF DEVELOPMENT EXPENDITURES WOULD PROBABLY BE BENEFICIAL IN LONG RUN.

7. AS FOR CLAIM THAT ALGERIAN WILLINGNESS TO SHAVE PETROLEUM PRICES HAS WEAKENED ITS ROLE IN OPEC, THERE HAS BEEN NO CREDIBLE SUGGESTION OF ALGERIAN OIL PRICE CUTTING SINCE SPRING OF 1975 THAT EMBASSY IS AWARE OF. ON CONTRARY, ALGERIANS NOW GETTING ABOUT HIGHEST PRICE IN OPEC FOR THEIR OIL, AND PIONEERING NEW OPEC FLEXIBLE PRICE SYSTEM. AS FAR AS WE CAN SEE, ALGERIAN INFLUENCE IN OPEC REMAINS FAR BEYOND WHAT ONE WOULD EXPECT BASED SIMPLY ON PHYSICAL OUTPUT OF OUL.

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8. WE AGREE THAT MORE FLEXIBLE POSITION OF THE U.S.  
HAS REDUCED ALGERIA'S INFLUENCE IN REFORMING WORLD  
ECONOMIC MECHANISMS. THIS DEMONSTRATES, IT SEEMS TO  
US, UTILITY OF EXAMINING IN POSITIVE SPIRIT THE DEMANDS  
OF THIRD WORLD BEFORE THEY GET OUT OF HAND.

9. WITH REGARD TO CLAIMS THAT SO MANY WESTERN BANKS  
ARE OVEREXTENDED IN ALGERIA TO A DEGREE THAT THEY DO NOT  
WANT TO DRAW ATTENTION TO THEIR PROBLEM LOANS, SEVERAL  
MAJOR U.S. BANKS DO HAVE HIGH EXPOSURE LEVELS IN  
ALGERIA. A RECENT VISIT BY EMBASSY COMMERCIAL OFFICER  
TO TWO MAJOR NEW YORK BANKS IN THIS CATEGORY FOUND,  
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HOWEVER, THAT EVEN THESE BANKS WERE STILL WILLING TO  
CONSIDER FURTHER LOANS TO ALGERIA--HARDLY A SIGN THAT  
THEY ARE VERY CONCERNED ABOUT PROBLEM LOANS TO ALGERIA.  
OVERALL, OUR IMPRESSION REMAINS THAT THERE IS STILL A  
GOOD DEAL OF INTERNATIONAL BORROWING ALGERIA CAN DO  
BEFORE IT REACHES THE SATURATION POINT.

10. WE AGREE THAT WE DO NOT NEED TO CODDLER ALGERIANS  
POLITICALLY TO PRESERVE OUR ECONOMIC RELATIONSHIP.  
ALGERIA CAN, IF IT CHOOSES, RETALIATE AGAINST U.S.  
COMMERCIAL INTERESTS EFFECTIVELY AND STRONGLY, AND WE  
COULD LOSE VALUABLE MARKET HERE (THE THIRD RANKING IN  
ARAB WORLD). THIS WOULD BE UNWELCOME NEWS BUT IT WOULD  
NOT MEAN THE END OF THE REPUBLIC. ON OTHER HAND,  
ALGERIA BADLY NEEDS U.S. TECHNOLOGY, CONSTRUCTION SKILLS,  
AND FINANCING, AND WHATEVER HAPPENS POLITICALLY WE THINK  
IT UNLIKELY ALGERIA WOULD MOVE TO CUT OUR MUTUALLY  
BENEFICIAL COMMERCIAL LINK. TO DATE ALGERIA HAS TAKEN  
GREAT PAINS TO KEEP POLITICAL AND ECONOMIC LEVELS OF  
OUR RELATIONSHIP SEPARATE, AS EVIDENCED BY RECEPTION  
GIVEN RECENT VIST HERE BY UNDER SECRETARY ROBINSON.  
DESPIT U.S.- ALGERIAN DIFFERENCES OVER WESTERN SAHARA,

ROBINSON WAS PROVIDED WITH LIST OF PROJECTS ON WHICH U.S. COMPANIES BIDDING AND ASKED BY MINISTER OF INDUSTRY AND ENERGY TO PROMOTE AND EXPAND U.S. SALES TO THE ALGERIAN MARKET. WE WOULD EXPECT THIS ALGERIAN SEPARATION OF ECONOMIC AND POLITICAL RELATIONS TO CONTINUE UNLESS THERE WERE EXTREME PROVOCATION ON PART OF U.S. OR UNLESS BOUMEDIENE REGIME FELT ITSELF ENDANGERED BY SUBSEQUENT SPANISH SAHARA DEVELOPMENTS.

11. HAVING SAID WE SEE NO NEED TO CODDLER ALGERIANS (AND HAVE SEEN NO INDICATION WE HAVE IN FACT DONE SO) MUST ADD THAT WE THINK IT AXIOMATIC WE SHOULD NOT NEEDLESSLY PROVOKE THEM, EITHER. WE BELIEVE U.S. INTERESTS IN AREA CAN BE MAINTAINED WITHOUT DOING SO. PARKER

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